



Senate Amendment to H.R. 3996 - Temporary Tax Relief Act of 2007

EXECUTIVE SUMMARY

This legislation was introduced by Representative Charles Rangel (D-NY) on October 30, 2007. The bill was ordered to be reported, as amended, by a vote of 22 - 13, by the Committee on Ways and Means on November 2, 2007. The House passed H.R. 3996 by a vote of 216 to 193 on November 9, 2007. The Senate stripped the tax increases out of the bill and passed a clean one-year AMT patch by a vote of 88 to 5 on December 6, 2007.

The House passed another AMT bill with a different set of tax increases, H.R. 4351, by a vote of 226 to 193 on December 12, 2007. House Ways and Means Committee Republicans expressed opposition to the array of tax increases in the bill, including 1) the carried interest taxation; and 2) delayed implementation of interest allocation.

The Senate amended the bill on December 18, 2007, and removed the tax increase provisions, which is now being considered by the House.

The bill would extend for one year AMT relief for nonrefundable personal credits and increases the AMT exemption amount to \$66,250 for joint filers and \$44,350 for individuals, which is estimated to cost \$50.59 billion over 10 years.

FLOOR SITUATION

Senate amendments to H.R. 3996 is being considered on the floor under a closed rule. The rule:

- Provides for consideration of the Senate amendment to H.R. 3996.
- Makes in order a motion by the chairman of the Committee on Ways and Means that the House concur in the Senate amendment.
- Waives all points of order against consideration of the motion.
- Provides that the Senate amendment and the motion shall be considered as read.
- Provides one hour of debate in the House equally divided and controlled by the chairman and Ranking Republican member of the Committee on Ways and Means.

- Provides that, notwithstanding the operation of the previous question, the Chair may postpone further consideration of the motion to a time designated by the Speaker.

SUMMARY

Extension of AMT Relief for 2007: H.R. 3996 will also extend the AMT relief for nonrefundable personal credits for one year through taxable year 2007. The bill raises the income threshold above which taxpayers may be subject to the Alternative Minimum Tax (AMT). The amount of income a taxpayer can make and still be exempt from the AMT is increased from \$42,500 to \$44,350 for individuals and is increased from \$62,550 to \$66,250 for couples that file a joint tax return.

Increase of AMT Refundable Credit Amount: Under present law, taxpayers with long-term unused AMT credit may claim an AMT refundable credit in the amount of the greater of (1) the lesser of \$5,000 or the amount of unused AMT credits, and (2) 20 percent of the unused AMT credits. The credit is phased-out for taxpayer's with adjusted gross income in excess of \$156,400 in 2007 (\$234,600 for joint filers). The provision would repeal the phase-out and allow taxpayers to claim an unused AMT credit in the amount of the greater of (1) 50 percent of the amount of unused AMT credits, and (2) the amount, if any, of the AMT refundable credit claimed by the taxpayer for the taxpayer's preceding taxable year.

BACKGROUND

The Alternative Minimum Tax (AMT) was created in 1969 to ensure that higher-income individuals and families did not utilize the tax code to unfairly avoid tax liability. It serves as a companion tax to the regular income tax. The AMT rates and exemptions, however, have never been properly indexed for inflation, resulting in more and more middle-income earners becoming subject to the AMT.

According to the Congressional Research Service, the AMT impacted fewer than 20,000 taxpayers when first implemented. In 2006 it applied to roughly 4.2 million taxpayers and is projected to affect over 23 million in 2007 unless it is addressed.

The Tax Reform Act of 1986 substantially changed the AMT by increasing the tax rate to 21%, changing the basic exemption amount, broadening the tax base, and revamping the AMT credit. It also introduced a phase-out of the AMT exemption amount for taxpayers whose AMT taxable income exceeded certain limits.

Since 1998, the AMT has been mitigated through temporary provisions allowing certain personal tax credits to offset AMT liability and temporary increases in the basic exemption for the AMT. Congress last enacted an AMT "patch" as part of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-122), which extended the fix through 2006.

COST

CBO Cost Estimate is not available at this time.

STAFF CONTACT

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